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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2015	Docket No. ACR2015

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 16

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 16, issued on February 22, 2016. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. In its response to Chairman's Information Request No. 12, the Postal Service states that the Flat Recognition Improvement Program (FRIP) has improved address recognition rates and reduced error rates.[1] However, as shown in the table below, acceptance rates for Standard Mail Flats have decreased since FY 2013.

Flats Accept Rates FY 2013-FY 2015				
		FY 2013	FY 2014	FY 2015
Automated Flats Sorting Machine 100	OP	96.88%	96.80%	96.42%
	OS	96.93%	97.05%	96.67%
	MMP	97.63%	97.61%	97.46%
	SCF	97.56%	97.53%	97.35%
Flats Sequencing System (FSS)		90.35%	89.69%	89.32%
Sources: Docket No. ACR2013, Library Reference USPS–FY13–11, December 27, 2013, Excel file "USPS-FY13-11.STD.ACR.PRC.xls," "ACCEPT RATES" tab; Docket No. ACR2014, Library Reference USPS–FY14–11, December 29, 2014, Excel file "USPS-FY14-11 STD_flats.xls," "ACCEPT RATES" tab; and Library Reference USPS–FY15–11, December 29, 2015, Excel file "USPS-FY15-11 STD flats.xls," "ACCEPT RATES" tab.				

a. Please describe all factors that reduced acceptance rates from FY 2013 to FY 2015 and explain how each factor offset the improvements realized from the FRIP.

b. Please provide the sources used to develop the savings estimates provided in Response to CHIR No. 12, question 13.

RESPONSE:

a. The Flat Recognition Improvement Program (FRIP) Optical Character Recognition (OCR) is an off-site OCR residing at the Remote Encoding Center

[1] Responses of the United States Postal Service to Questions 2-5, 7, 9, 11 and 13-17 of Chairman's Information Request No. 12, February 17, 2016, question 13 (Response to CHIR No. 12).

(REC) and whose key function is to resolve non-finalized images from the online OCRs (which reside on the AFSM and FSS machines), thus reducing keying workload to the REC. Address Recognition rates are measured as OCR finalization rates. OCR finalization rates and "ACCEPT RATES" as they are used in USPS-FY15-11 are different measures that are only marginally related. OCR technology is employed when either there is no mailer-applied barcode present or, for whatever reason, the mailer-applied barcode cannot be read. When the barcode cannot be read, the OCR is used to attempt to resolve the delivery address on the piece. If the OCR is unable to resolve the address, then the image is sent to a REC site for address resolution. FRIP – Software Update was intended to improve OCR recognition rates and reduce the number of images that needed to be resolved at REC sites by a keyer. This effort was largely successful in that 417,089,504 images were keyed in FY 2014 while only 232,932,296 images were keyed in FY 2015.[2] When OCR read pieces are successfully resolved by the OCR or by REC keying, they do not affect "ACCEPT RATES" as they have been successfully resolved and sorted. It is only the case that OCR pieces would become a component of "ACCEPT RATES" if for some reason the REC resolution failed.

The measure being compared to OCR finalization rates in this question, "ACCEPT RATES," is measured by the ratio of Total Pieces Handled (TPH) to Total Pieces Fed (TPF). As such, this measures all possible reasons that a piece could not be successfully handled on the flat sorting equipment, including: misfaced mail, mail piece destination not defined in the equipment sort plan, machine emergency stops, mail pieces with no address read, jams (feeder, tray, infeed, and Integrated Tray Converter), machine stops, mail piece timeout due to

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[2] *Compare* USPS-FY14-23, Mods Productivity Data, Excel File "RECprods14.xls," PRC Docket No. ACR2014 (Dec. 29, 2014), *and* USPS-FY15-23, Mods Productivity Data, Excel File "RECprods15.xls," PRC Docket No. ACR2015 (Dec. 29, 2015).

the resolution not being returned in time, mail pieces returned by a keyer, mechanical rejects, culling rejects, mail not presented to the correct feeder in the correct order (i.e., sequencing rejects), out of sequence trays, double feeds, and recycling rejects.

Given the multitude of possible reasons a piece could fail to be successfully processed, many the product of human error on the part of either clerks and/or mailers, the "ACCEPT RATES" have been remarkably stable over time. It bears mentioning that the small decrease in "ACCEPT RATES," less than 0.5 percent in most cases, has minimal effect on modeled cost as measured in USPS-FY15-11.

b. Savings estimates are a function of test deck performance with regard to FRIP annual volume. The FRIP test deck consists of 150,000 flat mail images collected from machines nationwide to represent the nation's flat mail base. Test deck images are run through the FRIP software in a controlled environment to simulate OCR coding results before (baseline) and after (measured improvement) each software release. Test deck processing/coding results are used to measure and calculate FRIP performance and improvements, and to assess savings from each new software release.

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2. In its revised response to Chairman's Information Request No. 12, question 11, the Postal Services states that "the Postal Service has the processing duration scores of FSS scheme mail, as well as such scores for mail that is not prepared as FSS scheme."[3]

a. Please explain how a processing score differs from a service performance score.

b. Please provide the processing scores for FSS scheme mail.

c. Please provide the processing scores for mail that is not prepared as FSS scheme.

d. What percentage of flat-shaped mail is measured in the Seamless Acceptance and Service Performance (SASP) and Business Intelligence Data Storage (BIDS) systems?

e. Please confirm that the SASP and BIDS systems will continue to measure FSS scheme and non-FSS scheme mail processing scores in future years.

RESPONSE:

a. A "Processing Score" reflects the percentage of mail for which the measured Processing Duration does not exceed the expected number of days in transit from Postal Service acceptance to the final processing operation. This score differs from a Service Performance score in that it does not include the Last Mile component that reflects time in transit from final automated operation to delivery.

b. In FY 2015, the processing score for FSS scheme mail was 89 percent.

c. In FY 2015, the processing score for mail that was not prepared as FSS scheme was 91 percent.

d. In FY 2015, the SASP and BIDS systems measured 36 percent of all Commercial flat-shaped mail and 58 percent of all Full-Service flat-shaped mail.

[3] Notice of the United States Postal Service of Filing a Revised Response to Question 11 of Chairman's Information Request No. 12 -- Errata, February 18, 2016, question 11.

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e. SASP and BIDS will continue to capture FSS scheme and non-FSS scheme data at least until such time that the internal measurement plan under review in Docket No. PI2015-1 is approved by the Commission. Informed Visibility, the proposed internal measurement system, will be capable of providing FSS schedule and non-FSS scheme service performance scores.

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3. In its response to Chairman's Information Request No. 6, the Postal Service states that it used partial year transportation cost data in its calculation of cost per mile because the data for quarter 1 (Q1) of the fiscal year is unreliable.[4] The Postal Service explains that "[a]dditional ad hoc transportation is purchased during Q1 to accommodate the additional volume, but the miles for ad hoc transportation are not recorded reliably…." Response to CHIR No. 6, question 22a(i)-(iii).

a. Please describe the obstacles that prevent the Postal Service from reliably recording miles for ad hoc transportation.

b. Please discuss whether the Postal Service has plans to improve its ability to reliably record miles for ad hoc transportation.

i. If the Postal Service has plans to improve its ability to reliably record miles for ad hoc transportation, please describe the steps the Postal Service plans to take and explain how these steps will improve its ability to reliably record miles for ad hoc transportation.

ii. If the Postal Service does not have plans to improve its ability to reliably record miles for ad hoc transportation, please provide whether the Postal Service intends to investigate this matter and develop such a plan.

RESPONSE:

a. The ad hoc transportation purchased during Q1 to accommodate the increased holiday season volume involves separate peak highway contracts, which include elements other than mileage in the calculation of payments made to the contractors. Note that the NSA volume in question is only a small part of the peak volume that these contracts are intended to handle. Given the nature of the highway contracts and the workload during the peak season, it would be counterproductive to impose an

[4] Responses of the United States Postal Service to Questions 5-7, 9-10, 12, and 17-28 of Chairman's Information Request No. 6, January 29, 2016, question 22a(i)-(iii) (Response to CHIR No. 6).

additional burden to collect and report more information than is necessary for administration of these contracts.

b. (i) and (ii)

At this time, the Postal Service has no plans to improve the recording of peak holiday season mileage data in instances in which it is not a cost driver for those (peak highway) contracts. For the same reason, the Postal Service does not intend to investigate this matter in order to develop a plan.

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4. The following table, developed using data in Library Reference USPS–FY15–31, December 29, 2015, Excel file "FY15.B.Public.xls," contains FY 2015 unit cost information for First-Class Single-Piece and Presort Flats.

FY 2015 First-Class Flat Unit Costs				
First-Class Flats	**Cost Segment 3**	**Cost Segment 6**	**Cost Segment 14**	**Total Unit Cost**
Single-Piece Flats	36.11	6.24	15.65	94.57
Presort Flats	35.72	11.63	10.24	91.47

a. Please explain why the unit attributable cost for First-Class Single-Piece Flats was 3.1 cents higher than the unit attributable cost for First-Class Presort Flats, including:

i. Why the Cost Segment 3 (mail processing) unit attributable cost of First-Class Presort Flats was only 0.4 cents lower than the Cost Segment 3 unit attributable cost of First-Class Single-Piece Flats.

ii. Why the Cost Segment 6 (City Carrier In-Office) unit attributable cost for First-Class Presort Flats was 5.4 cents higher than the Cost Segment 6 unit attributable cost for First-Class Single-Piece Flats.

b. Please explain what costs are avoided when First-Class Flats are entered as Presort instead of Single-Piece mail.

RESPONSE:

a. (i) The cited difference in Cost Segment 3 unit attributable cost between First-Class Mail Presort Flats and First-Class Mail Single Piece flats results from Presort Flats Cost Segment 3.1 (mail processing) unit costs being unexpectedly higher than the corresponding Single Piece cost, offset by expectedly higher Single Piece costs in Cost Segment 3.2 (window service). As noted in the response to part b, below, expected mail processing cost savings from presorting may be subject to some at least partly offsetting costs for

Presort Flats. However, the Postal Service views the measured cost difference in Cost Segment 3.1 as anomalous, and is investigating potential causes.

(ii) The cited difference in Cost Segment 6 costs is due in part to a higher fraction of First-Class Mail Presort Flats' RPW volume being delivered on city carrier routes, relative to Single Piece Flats. However, the magnitude of the difference is unexpectedly large. As with the mail processing cost difference, the Postal Service is investigating the source of the observed cost differences.

(iii) The cost segment 14 costs shown in the table are higher for First-Class Mail Single Piece Flats because Single Piece Flats are somewhat larger on average—notably, the average weight per piece is 0.22 lb. for Single Piece Flats, versus 0.17 lb. for Presort Flats—and tend to travel greater distances using purchased transportation. Thus, the Postal Service views the Cost Segment 14 differences as expected in direction and magnitude.

b. Generally, First-Class Mail Presort Flats avoid some piece-sorting costs, relative to Single Piece Flats, with the amount of the cost avoidance depending on the presort level. Additionally, First-Class Mail Presort Flats avoid some collection, cancellation, and retail acceptance costs that would be incurred by First-Class Mail Single Piece flats.

These avoided costs may be partly offset by bulk acceptance costs and additional costs for bundle and/or tray sorting (e.g., a presorted piece may incur an incoming primary bundle or tray sort instead of an incoming primary piece sort for an otherwise similar non-presorted piece.).

Additionally, First-Class Mail Single Piece and Presort Flats may have distinct cost characteristics related to factors such as their respective mixes of delivery types (carrier vs. post office box; business vs. residential), as well as differences in rates of undeliverable-as-addressed (UAA) handling.